GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2637
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Interest Rates after Demonetisation
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Will the Minister of FINANCE be pleased to state:

(a) whether the banks have lowered the interest rates on Fixed Deposits, saving schemes and home loans after demonetisation and if so, the details thereof, bank-wise along with the reasons therefor;
(b) whether old customers also get the benefit of lower interest rate on home loans and if so, the details thereof;
(c) whether the Government is aware that banks are charging conversion fees / charges from the old customers for lowering the rate of interest;
(d) if so, the details thereof and the reasons therefor; and
(e) whether the Government issue directives to waive the conversion fees / charges and if so, the details thereof and if not, the reasons therefor?

Answer

The Minister of State in the Ministry of Finance

(a) to (e): Reserve Bank of India (RBI) has deregulated the interest rate on advances, term deposits and domestic savings depositis and these are determined by banks with the approval of their respective Boards, subject to regulatory guidelines of RBI.

In terms of extant guidelines, which came into effect from April 1, 2016, banks have to compute actual interest rates on advances by adding the components of spread to the Marginal Cost of Funds based Lending Rate (MCLR) which is the internal benchmark for such purpose. Accordingly, the rate of interest charged to the borrower varies from bank to bank and depends on various factors such as cost of funds, operating costs, tenor premium, business strategy premium, credit risk premium etc.

Indian Banks' Association (IBA) has informed that due to heavy inflow of old currency, banks were flooded with liquidity immediately after demonetisation. Since, the credit growth was muted during the financial year 2016-17, banks were reducing the interest rates on deposits. As a result, the cost of deposits was gradually coming down for the banking system. After demonetisation, more deposits encouraged the banks to reduce the lending rate or MCLR significantly.

Further, in terms of the instructions contained in RBI's Master Direction (Interest Rate on Advances), 2016, existing borrowers linked to Benchmark Prime Lending Rate (BPLR) / Base Rate shall have the option to move to the MCLR linked loan to mutually acceptable terms. The terms of the switch-over may include charging of a fee for such switch-over.

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